

**Statement of Assistant Secretary of the Interior P. Lynn Scarlett
Before the
Subcommittees on Interior, Environment and Related Agencies and
Energy and Water Development and Related Agencies
House Committee on Appropriations**

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Chairman Taylor, Chairman Hobson, and members of both Subcommittees, thank you for the opportunity to appear here today to discuss the critical role of the Department of the Interior in improving the Nation's energy supply.

Administrator Caruso has testified concerning the availability of domestically produced natural gas and the current extraordinarily high price of natural gas. This difficult supply and demand situation, with its impacts on the American economy, has developed over a number of years. At a hearing before the Senate Interior Appropriations Subcommittee last month, the Industrial Energy Consumers of America stated that "[s]ince 2001, natural gas prices have significantly contributed to the loss of three million manufacturing jobs and the shifting of future investment overseas."

The supply disruptions associated with Hurricanes Katrina and Rita demonstrate the seriousness of our energy situation. The wake-up call being sounded for the past decade has reached the point where it must be heard.

In his National Energy Policy, the President pointed out that we must increase our energy supply and invest in our energy infrastructure. The National Energy Policy represents a long-term strategy to meet the principal energy challenges that we face: promoting energy conservation, repairing and modernizing our energy infrastructure, and increasing our energy supplies in ways that protect and improve the environment. As the President said, "Meeting each of these challenges is critical to expanding our economy, meeting the needs of a growing population, and raising the American standard of living."

Therefore, we must not lose sight of this fact: Diversification of our Nation's energy supply is a key goal for this Administration and must remain a top priority for our Nation's economic and national security. Achieving the goal of secure, affordable and environmentally sound energy will require diligent, concerted efforts on many fronts on both the supply and demand sides of the energy equation.

Before discussing the role that the Department of the Interior plays in meeting our energy challenges, I would like to report briefly to the Subcommittees on the status of Hurricane Katrina and Rita recovery efforts.

Hurricane Katrina and Rita Recovery

The oil and gas produced from the Gulf of Mexico are vital to the American economy and way of life. Production from the Gulf of Mexico provides 27 percent of oil and 20 percent of natural gas produced domestically.

Hurricanes Katrina and Rita moved through a core area of Gulf of Mexico offshore operations. Of the approximately 4,000 platforms, 2,900 were in the path of Katrina and Rita. One platform in the path of Katrina clocked sustained winds of 170 mph for 5-6 hours with gusts of over 200 mph. Katrina destroyed 47 platforms and 4 drilling rigs; extensively damaged 20 platforms and 9 drilling rigs. Rita destroyed an additional 66 platforms and 4 drilling rigs; extensively damaged 32 platforms and 10 drilling rigs.

Prior to Hurricane Katrina, the Gulf of Mexico produced approximately 1.5 million barrels of oil per day, and 10 billion cubic feet of natural gas per day. In the wake of these two devastating hurricanes, a significant portion of our Gulf production has been curtailed. At Rita's peak on September 25, 100 percent of daily oil production and 80 percent of daily gas production in the Gulf was shut-in. Through November 4, some 78 million barrels of oil and 400 billion cubic feet of natural gas have not been produced due to shut-in wells.

Although its office in Metairie, Louisiana was severely damaged and many of its employees lost their homes, the Minerals Management Service implemented its continuity of operations plan immediately after Katrina. Dedicated MMS employees have been working with industry, the States and other Federal agencies to restore Gulf of Mexico production.

As of November 4, the Gulf of Mexico shut in numbers were 52 percent of daily oil production and 46 percent of daily natural gas production. This reflects continuing and significant progress. However, it is fair to say that production in the Gulf will not be back to 100 percent for many months.

What lessons have we learned from the past two months?

Hurricanes Katrina and Rita confirmed that our offshore oil and gas industry produces environmentally safe energy for America. Even in the face of two back-to-back major hurricanes, there was no significant spill from production

wells. The single subsurface safety valve failure to occur was on a gas well with no associated oil or condensate.

In addition, the Katrina and Rita hurricanes confirmed that our domestic offshore oil and gas resources are key components in the energy mix which provide some of the basic necessities Americans have come to expect – gasoline for our cars, heating fuel for our homes, natural gas to cook our meals, to power our factories, and to generate the electricity that is critical to our way of life and critical to powering our advanced economy.

Role of the Department of the Interior in Domestic Energy Supply

As the President has frequently stated, and the hurricanes have shown us, we must diversify and increase our domestic production, while pursuing conservation and the development of alternative and renewable energy sources. The Department of the Interior plays a vital role in providing diversified energy supply to America, both from fossil and renewable sources. Approximately one-third of domestic natural gas and oil; 43 percent of coal; one-half of geothermal; 17 percent of hydropower; and 10 percent of wind power are produced from Interior-managed onshore and offshore areas.

In implementing the President's National Energy Policy, and now the 2005 Energy Policy Act, the Department is working on a number of fronts to make available opportunities for additional production of energy from diverse sources. In these efforts, we are working with other Federal agencies, State and local governments, Tribes, local communities, and others to apply innovative and adaptive approaches to increase domestic energy supplies, while addressing local concerns and protecting the environment.

Energy Development and Diversification

Alaska

ANWR. The most promising area for significant new oil discoveries in the United States is the North Slope of Alaska, and in particular, the Arctic National Wildlife Refuge. Had ANWR been opened in 1995, it is likely that today America could have oil from the area, which may have helped mitigate the effects of the hurricanes.

The U.S. Geological Survey estimates that ANWR contains a mean expected value of 10.4 billion barrels of technically recoverable oil. At \$55 per barrel, more than 90 percent of the assessed technically recoverable resource estimate is economic. At peak production, ANWR could produce more oil than any U.S.

state, including Texas and Louisiana.

Energy development in ANWR would involve only a small portion of the Refuge and would be conducted using newly available, environmentally protective technology. If legislation authorizing energy development in ANWR is enacted in this session of Congress, the Department will promptly begin the preleasing activities. The Administration appreciates the Senate's passage of legislation authorizing ANWR development.

NPR-A. The Department is also working to make oil and gas resources in Alaska available through management of leasing, exploration and development activities in the National Petroleum Reserve-Alaska, an area covering more than 23 million acres in the northwest corner of the state. Development of these oil and gas resources is an important component of the President's National Energy Policy and the Energy Policy Act of 2005. It is estimated that NPR-A contains 10.6 billion barrels and 61.4 trillion cubic feet (Tcf) of undiscovered resources for the entire assessment area. The first significant commercial production from the NPR-A is expected as early as 2008.

Alaska Natural Gas Pipeline. A year ago, the President signed into law the Alaska Natural Gas Pipeline Act, legislation that greatly enhances the prospects for approval of the Alaska Natural Gas Pipeline, which will provide improved access to the natural gas supplies on the North Slope. The Department, through the Bureau of Land Management, is actively participating in the interagency activities relating to the siting of the gas pipeline.

Onshore Oil and Gas

Subsurface areas managed by the Bureau of Land Management in the lower 48 States are also a vitally important source for oil and natural gas. In 2003, we released an Energy Policy and Conservation Act report identifying five EPCA basins in Montana, Wyoming, Utah, Colorado and New Mexico as containing the largest onshore resource of natural gas in the country and the second largest resource after the Outer Continental Shelf. These onshore basins contain an estimated 139 trillion cubic feet of natural gas-- enough to heat 55 million homes for almost 30 years. More than half of these lands are under Federal management.

Before any leasing or actual oil and gas production can occur on public land, BLM must have a land use plan that allows for energy activities in an area. Beginning in 2001, with the support of the Congress, BLM initiated the largest effort in its history to revise or amend all of its 162 resource management plans

to ensure the sustained health, diversity, and productivity of the public lands for the use and enjoyment of present and future generations.

Within areas designated in land use plans as appropriate for mineral development, the BLM has been making a concerted effort to help bring additional oil and gas supplies to the market. In fiscal year 2002, 2.1 trillion cubic feet of natural gas were produced from Federal (non-Indian) lands. In fiscal years 2003 and 2004, 2.2 Tcf and 3.1 Tcf, respectively, were produced from these lands.

BLM is experiencing a steady increase in demand for natural gas drilling permits, especially in the Powder River, San Juan and Uinta/Piceance Basins. Recent discoveries in the Greater Green River Basin will result in additional demand for drilling permits. In 2000, BLM received 3,977 applications for permits to drill (APDs). In 2005, the Bureau received 8,351 APDs. We estimate that in 2006, the number of applications will exceed 9,000, more than double the number just five years ago.

To address this demand, BLM has taken numerous administrative steps to ensure that APDs are processed promptly, while at the same time assuring that environmental protections are fully addressed in the review process. These include standard operating practice agreements, use of geographic area development plans and NEPA analyses, encouraging submission of APD packages with master development plans, use of standardized stipulations incorporating best management practices, and establishment of quality assurance teams.

These measures, together with increased funding of \$16.6 million (or an increase of 89 percent) since 2000, have allowed BLM to make significant progress in acting on applications. In 2005, BLM processed 7,736 APDs, nearly 4,000 more than it was able to process in 2000.

The Energy Policy Act of 2005 provides for new tools that will help BLM to more efficiently process APDs and improve consideration of environmental concerns.

Section 365 of the Act establishes a pilot program at seven BLM offices to test new management strategies designed to further expedite the processing of APDs. These strategies include placing employees of other Federal agencies in the pilot offices to provide for improved and expedited coordination in the consideration of applications. Coordinated permit processing arrangements with States are also authorized.

The seven pilot offices currently handle about 70 percent of the APD workload. The pilot offices will be aggressive and innovative in finding better and more efficient ways to manage the oil and gas program. Within 18 months, BLM will also identify best management practices that can be implemented across the bureau.

The Energy Policy Act of 2005 provides new funding for the pilot offices from oil and gas rental receipts. This will allow BLM to devote additional resources to APD processing, as well as for inspection and enforcement as development begins. BLM's non-pilot offices are also experiencing a sharp and sustained demand for APDs. To better address the rising demand for APDs in its non-pilot offices, BLM anticipates the need to propose a reprogramming in 2006, and is currently evaluating options for reallocating its base funds.

The Energy Policy Act of 2005 also gives us a valuable tool for improving our NEPA compliance related to the exploration or development of oil and gas by providing a legislative determination that a set of defined, minor development activities do not need further site-specific NEPA review and, if proposals meet certain conditions, they should be deemed categorically excluded from further NEPA review.

With more efficient processes and the additional funds provided through Section 365, we currently anticipate BLM will process 10,324 permits in 2006.

The efforts of BLM have already produced significant results. Almost 4,700 new onshore wells were started in 2005. This level of activity is 56 percent higher than in 2002.

Because of the sharp increase in the number of APDs filed, there continue to be pending APDs despite BLM's improvements to the administrative process. The new funding and authorities provided by the Energy Policy Act of 2005 will help bring the inventory of pending APDs current, resulting in significant benefits for our energy picture and the economy.

A recent analysis performed for the Department suggests that in the first five years of the pilot program, the additional APDs processed by BLM with the incremental funding provided by the pilot fund could result in the following benefits over a 15-year period: increased production of approximately 6.6 Tcf of natural gas; a net present value of \$20.4 billion in revenues, including \$1.8 billion in Federal royalties; and an additional \$5,353 direct jobs and 93,095 indirect jobs. These results are dependent on increasing access on Federal lands by modifying lease stipulations and conditions of approval, increased drilling rig and related infrastructure availability, and on BLM's ability to hire sufficient additional

qualified staff to process the additional permits. The report also notes that net energy production may be lower than these figures indicate because companies may pursue fewer projects on non-federal lands.

While BLM has made significant progress in responding to the high levels of APDs, and will continue to strive to improve the permitting process, an increasing number of protests being filed in the leasing process is slowing and limiting BLM's ability to further expand access to energy resources on public lands. The number of protests increased dramatically from 2003 to 2004, from 544 to 2,073. In 2003, 19 percent of the parcels offered were protested. In 2004, 51 percent of the parcels offered were protested. BLM has to review the merits of each protest on a case-by-case basis and this delays issuance of the lease. In many situations, the issues raised in the protests were addressed when the BLM developed the land use plan for the area.

Outer Continental Shelf

The Outer Continental Shelf is a major source of oil and gas for domestic consumption, contributing more natural gas than any state except Texas. Since 1982, the Minerals Management Service has overseen OCS production of more than 109 Tcf of natural gas.

Today, MMS administers more than 8,400 leases and oversees over 4,000 facilities on the OCS. Within the next 5 years, offshore production will likely account for more than 40 percent of oil and 26 percent of U.S. natural gas production, owing primarily to deep-water Gulf of Mexico discoveries.

Current Operations. Since May 2001, DOI has held 17 OCS oil and natural gas lease sales on schedule while undertaking a comprehensive consultation process with other Federal agencies, State and local governments, and the public. These sales resulted in leasing of almost 24 million acres of OCS lands to industry for oil and gas exploration and development, and generated about \$3.2 billion dollars in bonus bid revenue (not counting future royalties and rentals) for the U.S. Treasury. Production from leases issued as a result of these sales will contribute substantially to future domestic oil and gas production that will provide domestic energy to fuel our economy and meet the everyday energy needs of our citizens.

MMS has also established a suite of economic incentives to promote new discoveries of oil and gas resources and stimulate domestic oil and natural gas production:

- For 2001-2005 OCS lease sales, MMS continued the royalty incentive program – first established by the Deep Water Royalty Relief Act of 1995 – to promote interest in deep water leases, and expanded the incentive program to promote development of new natural gas supplies from deep horizons in the Gulf’s shallow waters.
- A new regulation in January 2004 extended the deep gas incentive to leases issued before the incentives were first provided in 2001 in order to promote additional deep drilling for natural gas on the shelf. This was a first – providing incentives on already existing leases - and was done to stimulate additional natural gas in an area where natural gas distribution infrastructure already existed and could deliver any new gas to the market quickly.
- MMS has also developed policies for extending lease terms to aid in planning wells to be drilled to sub-salt and ultra-deep prospects, accounting for the additional complexity and cost of planning and drilling such wells beneath the salt dome (which distorts and blurs seismic imagery) and at water depths that challenge even the most advanced technologies.

The continued use of royalty incentives in the deep waters of the Gulf is intended to keep industry moving forward on new technologies and exploring deeper water frontiers. The deep-water activity in the Gulf of Mexico has been a major success story. Deep-water gas production is up 407 percent, and oil production has risen 386 percent since 1996. In 2004, operators announced 14 new deep-water producing projects and 15 new deep-water discoveries. Anticipated production from these facilities will help sustain production increases in deep water, and will dramatically raise production in 2006.

New OCS 5-year Plan. Under the OCS Lands Act, the MMS is required to prepare a new 5-year leasing plan that specifies the size, timing and location of areas to be considered for Federal offshore natural gas and oil leasing. The 5-year planning process provides several opportunities for MMS to work with Federal and State agencies, local communities, private industry, and the general public to develop a program that offers access in an environmentally responsible manner to those areas with potential for discovery of natural gas and oil. Not every area analyzed in a 5-year plan is recommended for leasing consideration.

Public participation through input and comments is an integral part of preparing the environmental impact statement in conjunction with the 5-year program. There are also multiple opportunities for public comment during the EIS process as well. Throughout the process of developing a new 5-year program, MMS requests

comments from states, local and tribal governments, American Indian and Native Alaskan organizations, the oil and gas industry, Federal agencies, environmental and other organizations, as well as the general public. Consultation with affected parties also occurs at the local level through MMS regional offices.

MMS announced in late August that it is seeking initial public comment on the development of its 2007-2012 5-year leasing plan for energy development on the Outer Continental Shelf and accompanying environmental impact statement.

In seeking comments, MMS asked the public to comment specifically on whether the existing withdrawals or moratoria should be modified or expanded to include other areas in the OCS. Comment was also sought on whether the Interior Department should work with Congress to develop gas-only leases. Of all of the comments received to date on the 5-year plan, MMS has received 8,998 comments for opening additional areas of the OCS and 2,276 against.

We have received several letters from senior citizens expressing their "strong support" for opening additional areas of the OCS. One senior citizen wrote "I'm writing to express my strong support for developing more domestic oil and natural gas resources off our coasts - in the country's Outer Continental Shelf (OCS) - by providing for more acreage for lease in the government's next five-year leasing program for 2007-2012 . . . Higher energy prices of the past two years have forced me to make hard choices. And I worry that high energy prices will harm our economy affecting the value of pensions and making it more difficult for Social Security to help make ends meet."

We have also received several letters from Chambers of Commerce throughout the country. The Indiana Chamber of Commerce wrote, "The Indiana Chamber of Commerce and our members are experiencing high energy costs, resulting in a negative impact on production and transportation in Indiana." The Arkansas Chamber of Commerce stated, "Over the last five years the price of natural gas has risen 140%. There is no doubt this increase has played a role in the reduction of manufacturing jobs available to Arkansans."

Other Fossil Sources

Oil Shale. The United States holds significant oil shale resources underlying a total area of 16,000 square miles. This represents the largest known concentration of oil shale in the world and could contain the equivalent of 2.6 trillion barrels of oil. More than 70 percent of American oil shale is on Federal land, primarily in Colorado, Utah, and Wyoming. The Energy Policy Act directs that public lands

in these three States be made available for research, development, and demonstration leasing.

BLM has announced initiation of an oil share RD&D program. In response to the announcement, the BLM has received 20 nominations for parcels of public land to be leased in Colorado, Utah, and Wyoming. BLM intends to offer RD&D leases for the viable nominations early in 2006. BLM will also be conducting a programmatic environmental impact statement and will develop a commercial leasing program by mid-2007.

Gas Hydrates. Industry and government scientists are now studying the possibility that a unique and puzzling frozen "ice" crystal may hold the key to future energy resources. Methane hydrates are naturally occurring, ice-like solids in which compressed gas molecules are trapped. Hydrates are found in locations with high pressure and low temperature. Discovering a method to locate, produce and transport the gas from these formations to the market is the key to unlocking their potential energy benefits.

The estimated volume of natural gas occurring in hydrate form is immense, possibly exceeding the combined value of all other fossil fuels. Gas hydrates are found in some of the world's most remote regions such as the Arctic and deep-water oceans. On the North Slope of Alaska alone, there are potentially 562 trillion cubic feet of gas hydrate, with 100 trillion cubic feet falling within just two areas of known infrastructure – the Eileen and Tarn accumulations.

An international research consortium, involving the Geological Survey as scientific co-lead, has reported that it is technically feasible to produce gas from gas hydrates. Research results from the consortium are being used to develop geologic models to predict the occurrence of gas hydrates in the Gulf of Mexico and to assess the recoverable resource potential of onshore natural gas hydrate and associated free-gas accumulations in northern Alaska. In addition to USGS, both MMS and BLM are working on these efforts.

Coal. BLM-managed lands are a critical source for an efficient, affordable, and reliable domestic energy supply of coal. From 2001 through 2004, nearly 1.8 billion tons of coal was produced from Federal leases. Bonus bids are up 177 percent; existing lease production is up nearly 24 percent; and the royalty and estimated rent income is up nearly 33 percent.

The Energy Policy Act gives the Department the authority to increase the number of acres per lease. Implementation of this provision will enhance BLM's ability to make coal resources available for lease.

The Office of Surface Mining Regulation and Enforcement works with coal operators to ensure that land that has been mined is restored to its previous condition. OSM has a successful working relationship with the States and mining industry to ensure sites are properly reclaimed. OSM brings a level of regulatory stability to the benefit of the public, States, and industry.

Conservation and Renewable Energy

Fossil fuel development is only a part of the response to our Nation's energy needs. We also must increase energy conservation and the use of alternative and renewable resources.

Most media coverage of the President's National Energy Policy and the Energy Policy Act of 2005 has focused on production of traditional energy. However, both the Policy and the Act call for increased energy conservation and alternative and renewable sources as critical components of a robust energy program.

Good stewardship of resources requires that we use energy efficiently and conserve resources. Americans have already made great strides in using energy more efficiently. Since 1973, the United States economy has grown nearly three times faster than energy use, in part due to more efficient use of energy. Efforts over the past 20 years have shown that simple conservation actions by individuals and businesses can yield impressive results in demand reduction.

Alternative and renewable sources of energy can also play an important role in helping meet our increased energy needs. To this end, the National Energy Policy and the Energy Policy Act encourage development of a clean, diverse portfolio of domestic energy supplies, and include measures to aid in the development and expansion of renewable energy technologies in use today, including geothermal, wind, solar, and biomass, as well as continued research into using hydrogen as an alternative energy source. Such diversity helps to ensure that Americans will continue to have access to the energy they need.

With that in mind, the Department has established conditions that will permit the development of renewable sources both on and offshore. We are increasing permitting, improving land use planning, and establishing policies that emphasize the use of renewables. In fact, since 2000, we have approved 200 geothermal leases and 92 wind energy permits. To further encourage wind energy development, the BLM has prepared a national EIS to assist in expediting wind energy permitting across our public lands. In addition, the Minerals Management Service is aggressively implementing its new responsibility under the Energy Policy Act to permit alternative offshore energy-related uses such as wind, current, and wave technology on the OCS.

Hydropower is also a key renewable energy source. The Bureau of Reclamation's 58 power plants make it the 10th largest producer of electricity in the Nation. Those plants have an exemplary record of reliability, with a forced outage rate of about one percent, far better than the industry's average of 2.5 percent. We are continually expanding generation at our facilities by upgrading turbines.

The Department has been working with the Departments of Agriculture and Commerce, and in consultation with the Federal Energy Regulatory Commission (FERC), concerning the hydropower provisions in the Energy Policy Act. The Act requires the Departments to promulgate a joint rule regarding conditions or prescriptions that are prescribed for inclusion by FERC in licensing or relicensing a non-federal hydropower facility. These conditions or prescriptions address a variety of concerns including fish passage and water quality. Under the Energy Policy Act, applicants and other parties to a FERC licensing proceeding may request a hearing on disputed issues of material fact. In addition, they may submit alternative conditions or prescriptions for Departmental consideration. Congress enacted these requirements in light of the economic and environmental consequences involved in licensing hydropower facilities, to afford interested parties an opportunity to raise concerns. We expect the rule to be published in the Federal Register very soon.

For solar energy, last fall the BLM issued a solar energy development policy, which, establishes the authority and procedures for BLM field offices to use when processing applications for solar projects. It helps establish solar markets by encouraging BLM field offices to consider the use of solar power for BLM facilities and field stations. More than 650 facilities owned and operated by the Department are equipped with solar systems. These include office buildings and remote systems such as weather stations and water pumps.

Finally, the Department of the Interior continues to explore ways to encourage the use of wood biomass created as a result of wildfire prevention and healthy forest treatments. Most people think of ethanol from corn when they think of bioenergy, but wood is the source for 72 percent of all U.S. bioenergy production. Two Presidential initiatives, one to prevent catastrophic wildfires and the other to restore rangeland and forest health, encourage the removal of excess or diseased wood debris from forests and rangelands. This wood debris can be used as a renewable source of biomass energy.

The Department is working to reduce regulatory barriers and encourage markets for the material produced from biomass and are actively working with other stakeholders on ways to use this resource. For instance, we will be hosting,

along with the Departments of Agriculture and Energy, a conference on bioenergy. The Department will also provide training to local communities in biomass utilization.

Conclusion

The Department of the Interior is working on many fronts to provide increased access for the development of natural gas, oil, oil shale, coal, and renewable energy. These efforts are a critical component of President Bush's program to provide a diverse and secure energy supply for America.

As we undertake these efforts, we are committed to protecting the environment for our children and our grandchildren. The recent events in the Gulf of Mexico have shown that with modern production techniques and environmental safeguards, energy can be produced safely in even the most challenging and unpredictable of environments.

Thank you for the opportunity to be here today to discuss the Department's energy programs. I will be happy to answer any questions members of the Subcommittees may have.